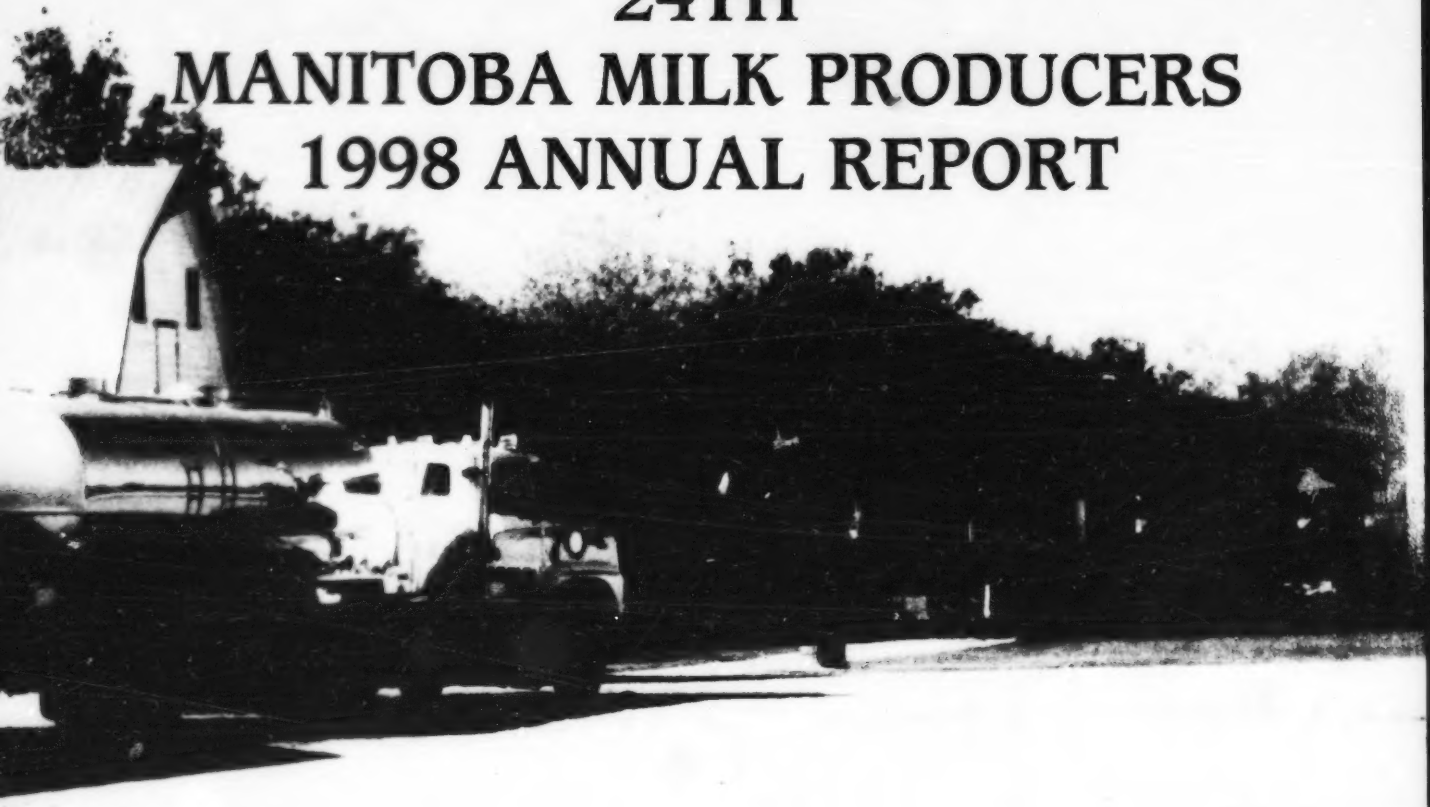
24TH
MANITOBA MILK PRODUCERS
1998 ANNUAL REPORT



BOARD MEMBERS

front row (l to r):
Craig Finnie, Executive Member (District 3)
Hugh Jameson (District 2)
Bud McKague (District 1)

back row (l to r):
Jim Wade, General Manager
David Wiens (District 9)
Ray Pelletier (District 8)
Ken Leppky, Executive Member (District 7)
Neil Van Ryssel, Chairman (District 6)
Wm. Swan, Vice Chairman (District 5)
Maurice Delichte (District 4)

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CHAIRMAN'S REPORT

The 1997/1998 year saw Manitoba's dairy industry set new records in milk production and processing. Records were set in domestic and export marketing. New decade low levels of butterfat were achieved by producers while maintaining one of the highest protein ratios in Canada. We are not surprised that processors are choosing Manitoba to base their next phase of cheese processing expansion. We have an advantage in ingredient content not found elsewhere.

Investment in milk production hit record highs this year. Producers are planning and investing for the next millennium. The 100 and 200 cow unit is much more common and will become more common still, in the next five years. Manitoba has several advantages in milk production. We have a stable, reliable climate in which to grow high quality forage. We have ample, competitively priced land. There are large quantities of high quality feed grains available at some of the lowest prices in North America. We have a marketing system which is the envy of the world. We deliver to processors, the best quality milk found in our region. We are ready to compete in the western Canadian market and beyond. Where we can make a dollar, we will be there.

Trends to bigger and better have affected milk transportation. In the last year the cost of transporting milk from the farm to processors decreased for the second year in a row. Congratulations to transporter and producer negotiators for their accomplishments.

The 1997/1998 year was the first full year of operation of the Western Milk Pool Agreement. The revenue and market sharing agreement brought stability to producers prices and ensured that more than enough milk was available for Manitoba processors. The revenue and market sharing agreement has worked well. Other aspects of the agreement will need more time to ensure that the regulatory environment is in place.

Restructuring of administrative staff this year has resulted in improved services to producers. The changes will continue into 1998/1999 in the transportation and producer relations groups. Our focus is always to improve the service to producers, lowering overall cost and growing into those areas that producers request.

Working with and on behalf of milk producers for the last twelve years has been rewarding, challenging and productive. Your commitment to the principles of orderly marketing will continue to bring the stability of income that is needed to build a strong future.

Neil Van Ryssel
Chairman

District Elections

In the normal cycle of three year terms, members terms expired in districts 2, 5 and 8 in the fall of 1997.

In each district the incumbent was returned by acclamation. Mr. Hugh Jameson was elected in District 2, Mr. William Swan was elected in District 5 and Mr. Raymond Pelletier was elected in district 8.

In the fall of 1998 regular elections were called in districts 3, 6 and 9.

Directors Activity

During the 1997/1998 year the Board of Directors met 19 times for a total of 30 days. There was one conference call and a three day strategic planning session in November 1997.

The total number of days the nine directors dedicated to Manitoba Milk Producers business in 1997/1998 was 978 days or an average of 108 days per director. The low was 75 days and the high was 231 days.

Directors are involved in regular Manitoba Milk Producers directors meetings, Manitoba Milk Producers committee work, affiliated organizations, Interprovincial Pooling meetings, conferences and seminars.

District Milk Committees

Manitoba Milk Producers is a dairy farmer organization and is directed by them. Nine district milk committees, each consisting of nine elected milk producers, act as the Board members advisers on policy development.

In 1997/1998 the district milk committees met three of four times in each district. The March Forum held in Brandon on March 4 and 5, 1998 examined in detail new product development, and several Daily Quota Policies.

Spring District Meetings

Manitoba Milk Producers held a round of meetings in the spring to discuss current policy development and consider ideas from producers. Topics of concern were the 1998 transportation charges, the February pool, the new 98% domestic and 2% optional sleeve pricing system, skim off export and the future of the quality premium.

The results of the discussions were that the quality premium was discontinued.

Standing Committees

The Board of Directors established six committees in 1997, their purpose was to provide specialized attention to matters affecting milk producers. The 1997 committees were Executive, Environment, Finance, Product Promotion, Transportation and Milk Quality Improvement. A complete list of committee membership can be found on the inside back cover.

Related Organizations

Members are also active in related provincial and national organizations. In 1997/1998 Manitoba Milk Producers was active in Agriculture in the Classroom, Canadian Milk Supply Management Committee, Dairy Farmers of Canada, Keystone Agricultural Producers, Manitoba Forage Council and Manitoba Farm Animal Council.

Interprovincial pooling occupied two of the Executive Committee members on an ongoing basis, involving 20 days of meetings. Almost all of these meetings were held in other provinces.

Western Milk Pool

Manitoba Milk Producers participates in an all market and all revenue sharing agreement with Saskatchewan, Alberta and British Columbia. The 1997/1998 year marks the first complete year of operation of the agreement in which revenue was shared on the basis of dollars per kilogram of total solids marketed by producers in the four provinces. Manitoba's share of the pool is 17.18% of the total revenue in the pool in any month. Over quota milk and any Optional Export Program milk are kept separate. Management of the Western Milk Pool is by the Coordinating Committee. Manitoba is represented on this committee by Manitoba Milk Producers, Dairy Manufacturers Association of Manitoba and Manitoba Natural Products Marketing Council. The committee met six times during the year to set policy and review reports of the monthly pool calculations conducted by the Canadian Dairy Commission. The Western Milk Pool also has established a technical committee of economists and other experts to review and recommend to the coordinating committee, action to be taken on technical matters.

All aspects of the revenue sharing and market sharing agreement are working well. Transportation sharing due to interprovincial movement of milk, was agreed to during a Manitoba processor's labour dispute in April 1998.

The WMP agreement has eliminated interprovincial boundaries in the marketing of raw milk and dairy products.

All Milk Pool Agreement

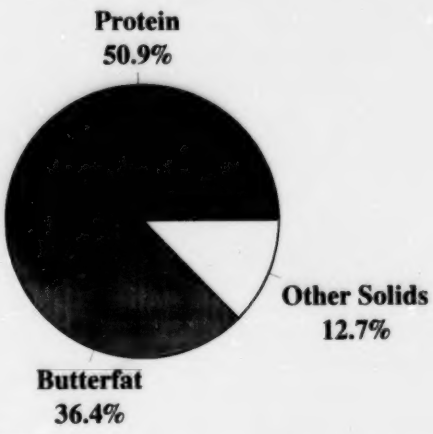
Manitoba Milk Producers is a signatory of the All Milk Pool agreement or P6 as it is commonly known. The agreement is managed by the Supervisory Body and has appointed the Canadian Dairy Commission to conduct a monthly all milk pool. The pooling partners are Nova Scotia, Prince Edward Island, New Brunswick, Quebec, Ontario and Manitoba. Manitoba is represented on the Supervisory Board by Manitoba Milk Producers. The Dairy Manufacturers Association of Manitoba attends all the meetings as an observer. The pool is shared on the basis of the revenue contributed by each province using multiple component pricing. An individual price pool is calculated for each component and the partners' contributions are compared to the average value to the pool and adjustments are computed.

In February 1998 Manitoba withdrew its participation in the revenue sharing agreement as Manitoba Milk Producers's expectations of the pool were not being met and the government announced that a dairy industry review would be done in 1998. The review was to assess the competitiveness of all aspects of the production and processing sectors as well as examine the appropriateness of the regulatory environment. Manitoba Milk Producers has been banking any obligation to the P6 since February 1998. In the meantime Manitoba Milk Producers has been conducting an in depth analysis of the value of remaining in the P6. The analysis will be completed in the fall of 1998. The dairy industry review had not begun by early October 1998.

PERCENT SHARE OF REVENUE

Domestic Market

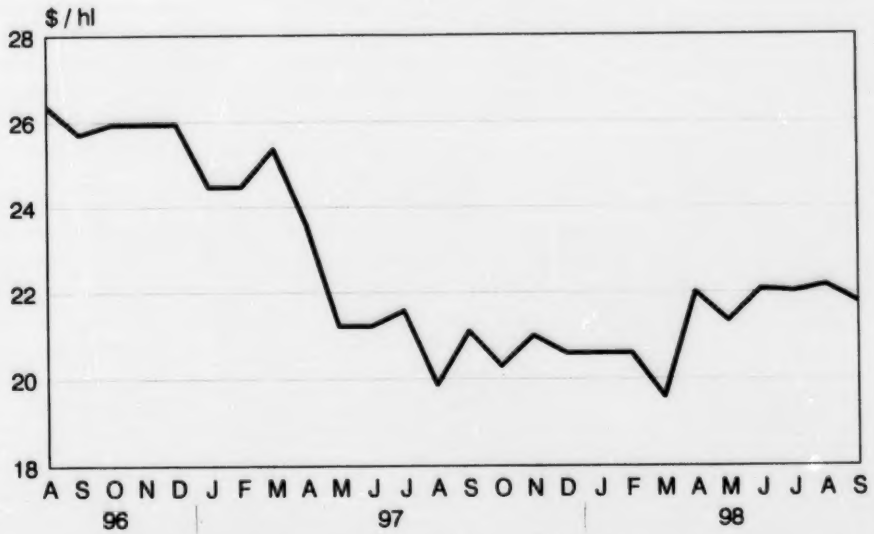
1997/98 Dairy Year



MMP Pool Statements

Producer World Prices

as set by CDC



Canadian Milk Supply Management Committee

Manitoba Milk Producers executive represents Manitoba at the Canadian Milk Supply Management Committee meetings. The Canadian Milk Supply Management Committee conducts a review of domestic requirements for butterfat every three months and sets the level of the Market Sharing Quota for Canada once or twice per year. The Dairy Manufacturers of Manitoba also attend as observers. The supply management committee met four times during the fiscal year. This is 30% less meetings than the previous year.

The committee manages the supplies of butter and skim milk powder in Canada through the domestic and international operations of the Canadian Dairy Commission. During the year, the stocks of both butter and skim milk powder grew to the point that exports of whole milk products such as cheese and whole milk powder were authorized by the Canadian Milk Supply Management Committee. The CDC acted quickly and was able to place whole milk products in international markets. Returns from these sales were shared by all Canadian producers through the Special Class Pool. Manitoba processors participated in these contracts as well.

The overall demand for butterfat in the country rose during the 97/98 year and up to the third quarter of 1998, stronger demand persisted.

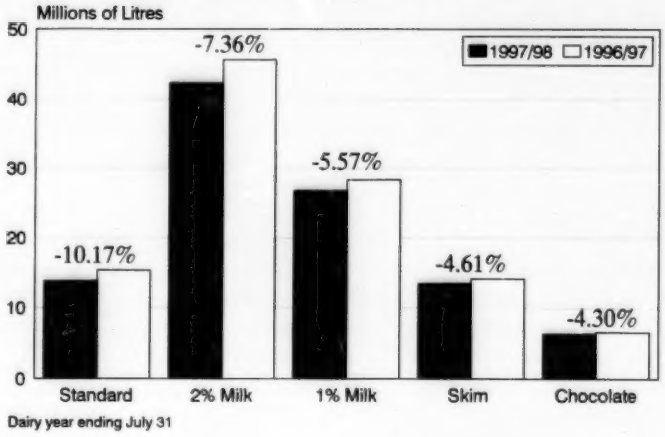
Year 2000 Compliance Committee

On January 1, 2000, the Year 2000 problem - known as the "millennium bug" - could affect any computer and any kind of date-activated device.

The Year 2000 computing problem stems from the practice of representing the year as a two-digit code instead of four (e.g. "97" for "1997"). When "00" is entered for the Year 2000, the date may be interpreted as "1900" resulting in errors when the dates are used in computations or comparisons or even cause the system to fail. This applies to many existing technologies or business applications, from word processing to networks to electronic equipment and facilities systems.

MANITOBA FLUID SALES

1997/98 vs 1996/97 Dairy Year



Manitoba Milk Producers recognizes the importance of being Year 2000 compliant for both our clients and our suppliers. Therefore, the Board has created a committee (Year 2000 Compliance Committee) with the mandate to:

1. Conduct an inventory of electronic systems, hardware, and software applications.
2. Assess each system and application to determine the extent of the date problem.
3. Determine which system and applications are essential to our day to day operations and where our systems are linked or dependent on outside systems.
4. Develop critical task timeline.
5. Correct or replace any systems deemed necessary.
6. Test the corrected systems thoroughly.
7. Assess the impact supplier, customer and service providers may have on our business. Ask for assurances from these businesses on their Year 2000 readiness.
8. Develop contingency plans to ensure continuity of business operations in case of failure of our internal systems or those of important business suppliers, service providers or customers.
9. To ensure all legal obligations are being met.

The Year 2000 Compliance Committee has met four times with regular updates being reported to the Board of Directors as well as receiving guidance from them.

We expect to have the milk producer payment system operational by August 1, 1999. This then allows for a full six months of testing and simulation alongside the currently utilized mainframe. We have also done tests on each personal computer utilized at the Board office to ensure they will be operational by January 1, 2000.

In addition, the Committee has asked for letters of assurance from all of our service and product suppliers regarding Year 2000 compliancy. Feed and milking equipment manufacturers have been asked for their progress on addressing the millennium bug problem.

On August 1, 1997, the Canadian Dairy Commission announced there would be no change in the target support price for industrial milk. The support prices for butter and skim milk powder, and the assumed processor margin would also remain unchanged.

The Canadian Dairy Commission announced an increase to the support prices for industrial milk effective February 1, 1998 of $2.05/hl. This increase consisted of $1.25/hl due to increased costs of milk production, $0.80/hl for subsidy rduction. This resulted in an increase in the support price of skim milk powder from $4.203 to $4.4310 per kilogram. The butter support price increased from $5.324 to $5.3927 per kilogram.

A charge of $0.07 per hectolitre was included to the target price to cover costs associated with the normal stocks of butter held by the Commission. This charge was reduced from $0.12/hl to $0.07/hl to reflect lower storage costs for butter resulting from lower interest costs. The $0.07 per hectolitre charge ensures domestic demand is met by holding butter stocks and to cover administration costs related to the Commission's domestic marketing activities.

The subsidy rate paid directly to producers, from August 1997 to January 1998, was $1.055 per kilogram of butterfat ($3.80/hl). On February 1, 1998 this rate was reduced to $0.844 per kilogram ($3.04/hl) for the remainder of the 1997/1998 dairy year. This decrease was offset by an increase in the support price for skim milk powder.

In negotiations with Manitoba processors, all classes of industrial milk were increased by the full $2.05/hl.

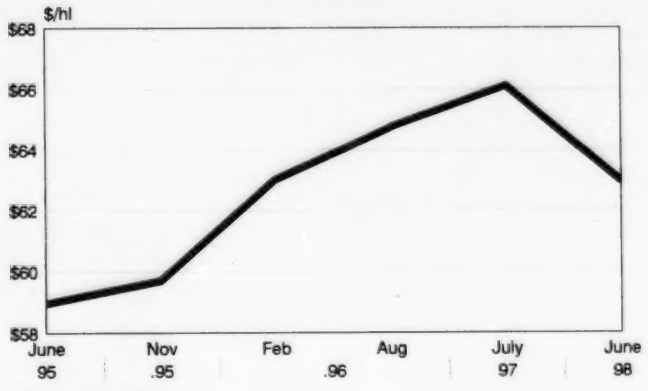
Fluid Milk Price

On May 15, 1998, Manitoba Milk Producers (MMP) reduced the Class 1 price by $2.29/hl to $64.37/hl @ 3.7034 kg/hl BF to match the May 15, 1998 Alberta price announcement. Considering that Manitoba is in the Western Milk Pool and that harmonized fluid pricing is the goal, MMP also realized that a significant price difference between the two provinces could potentially lead to companies processing their fluid milk requirements in Alberta.

On June 1, 1998, the Milk Prices Review Commission (MPRC) decreased the producer fluid milk price a further $0.88/hl, from $64.37/hl to $63.49/hl @ 3.7034 kg/hl BF. The MPRC has the authority to set producer prices for fluid milk in Manitoba.

Fluid Milk Price Changes

Manitoba

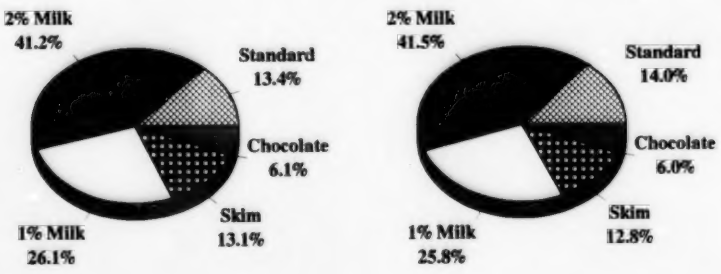


based on 3.6 kg/hl

Fluid Sales Utilization

1997/98 vs. 1996/97

Manitoba



1997/98 1996/97

1997 Skim Off

Manitoba's 1997 fluid skim off decreased from 524,996hl to 489,221hl, a 6.8% decrease over 1996. This is equivalent to 129,073 kilograms of butterfat. This is a greater decrease than the Canadian fluid skim off which decreased by 4.07% or from 9,806,218hl to 9,409,990hl. In addition, Manitoba's skim off was further reduced due to our participation in the Skim Off Export Program in the Western Milk Pool whereby fluid skim off is exported out of the country as 44% cream. Manitoba received 17.18% of the 89,020 kg of butterfat attributed to the Skim Off Program.

The decrease in 1997 skim off was due to three areas. Firstly, the on farm butterfat test dropped by 0.02654kg/hl or from 3.82577kg/hl to 3.79923kg/hl.

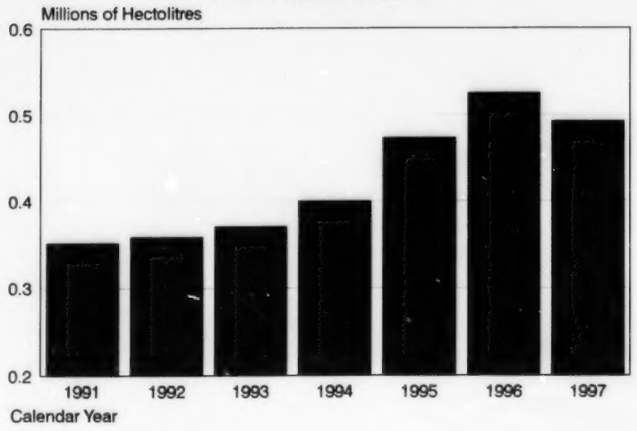
The second point is the amount of fluid products (skim, 1%, 2% & 3.25%) sold into the Manitoba marketplace. Overall, fluid milk sales decreased by 4.33% over 1996 which means less fluid skim off being produced. In addition, total fluid cream (cereal cream, whipping cream, table cream) sales increased by 21.05% which means more skim off is being utilized for the production of these products.

The third reason is the fluid product butterfat contents have, for the most part, stabilized. Standard milk butterfat content stayed at 3.25%, 2% milk remained at 1.97%, 1% milk decreased from 1.01% to 0.99% and chocolate milk declined from 1.21% to 1.17%. Whipping cream butterfat content increased from 34.83% to 35.02%. A stabilizing fluid milk butterfat content, along with a decrease in fluid sales, means less butterfat was skimmed off and sold into the industrial market.

Also dealing with skim off is the issue of fluid product butterfat content. Manitoba Milk Producers is concerned that the government regulations dealing with this issue do not address the problem of processors skimming off more than the butterfat content stated on the product carton. That is, 2% milk should have 2% butterfat content and nothing less than this. We are looking at the Alberta regulations which state that fluid products must have no less than the stated butterfat content. And that the butterfat content is extended to two decimal places. For example, processors are required to have 1.00% butterfat content in 1% milk. What occurs if the regulated butterfat content is not extended to two decimal places (as is the case in Manitoba) is that a test of 0.95% is rounded up to 1.00%. Similarly, a test of 1.97% is rounded up to 2%. This is unacceptable to Manitoba Milk Producers and we are working with government and processors to rectify this problem. The Western Milk Pool also considers this an issue with all provinces looking to harmonize their regulations to Alberta's.

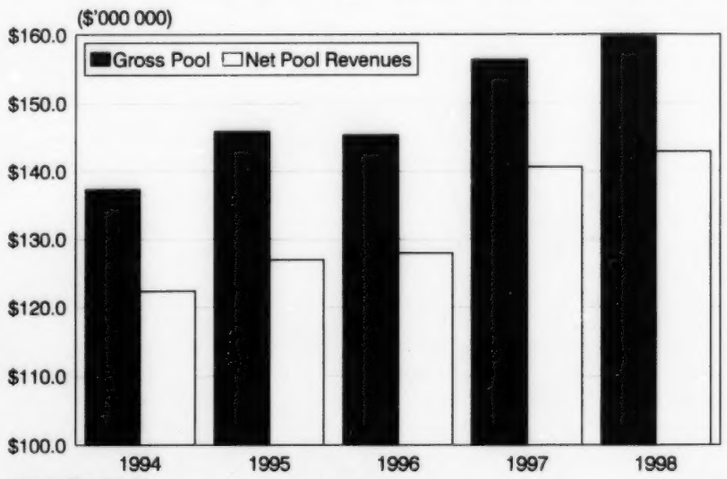
Manitoba Fluid Skim-off

Hectolitres of Milk



GROSS POOL vs. NET POOL REVENUES

Quota Years 1994 to 1998



Milk Production

Manitoba Milk Producers marketed 284.5 million litres of milk during 1997/1998 as compared to 278.3 million litres in 1996/1997. This represents an increase of 6.2 million litres, or 2.24%. Butterfat production increased by 1.42%, from 10,618,099 kg in 1996/1997 to 10,768,658 kg in 1997/1998. The butterfat content decreased from 3.81521 kg/hl to 3.78449 kg/hl representing a decrease in the butterfat test of 0.03072 kg/hl or 0.81%.

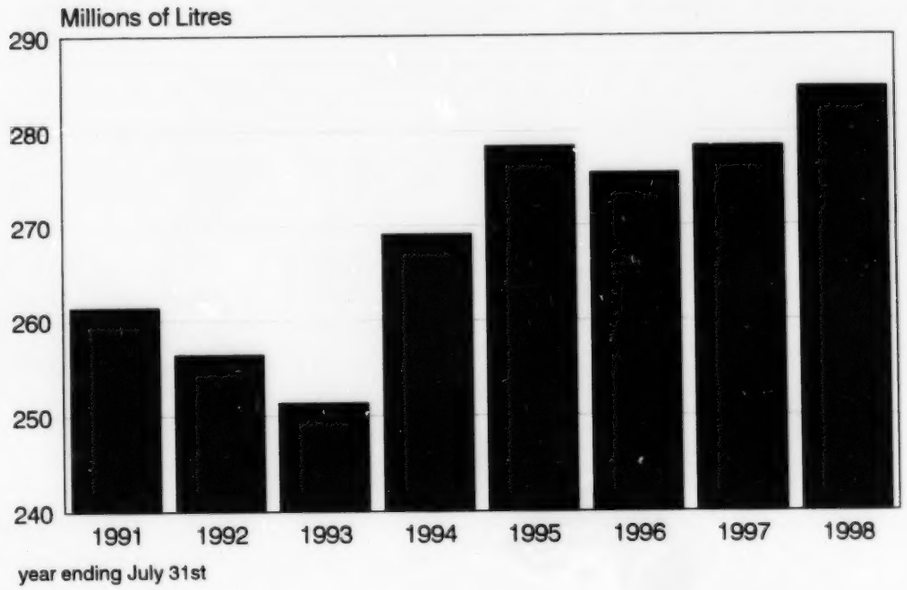
Milk Marketing to Processors

At year end, Manitoba Milk Producers marketed to nine processing plants owned by five processing companies at a total value of $159.5 million. These consisted of three fluid milk plants and six industrial milk plants.

Fluid milk plants receive milk on demand and consumed 107.3 million litres or 37.7% of total milk marketed. Industrial milk plants receive milk on the basis of traditional allocations set each year after skim off adjustments have amended the provincial market share quota. Milk in excess of the aggregated traditional allocations was marketed at the highest classification. Industrial milk plants processed 177.2 million litres of milk in a wide range of dairy products. About 63% was used to make cheese. All of Manitoba's milk is processed in Manitoba and is 100% value added. Processors purchased milk for export to countries such as United States, Mexico, Haiti, Nicaragua and Japan through Special Class Milk.

Manitoba Milk Production

Quota Years 1991 to 1998



Manitoba Milk Producers

Monthly Pool Payment Summary
Dairy Year August 1997 to July 1998

Milk Class	Description	Litres	Butterfat Kgs	Protein Kgs	Other Solids Kgs	Total Values
1A	Fluid Milk	96,519,723	1,668,052.740	3,225,303.060	5,524,885.458	$53,367,850.39
1B	Fluid Creams	3,168,919	565,346.209	88,384.342	151,569.434	$4,527,817.41
1C	Flavoured Milk	7,632,068	113,247.931	254,735.579	436,416.989	$4,120,957.36
2	Ice Cream	5,926,770	894,330.907	173,699.394	292,034.973	$6,537,312.72
3A	Specialty Cheese	48,189,372	1,540,466.501	1,626,638.654	2,717,767.827	$24,215,187.70
3B	Cheddar Cheese	69,009,636	2,588,463.285	2,313,198.657	3,870,547.140	$36,414,865.38
4A	Butter/powder	26,848,356	2,581,166.238	837,938.424	1,412,584.517	$22,237,506.51
4B	Condensed Milk	0	0.000	0.000	0.000	$0.00
4C	New Products	0	0.000	0.000	0.000	$0.00
4D	Inventories	940,758	15,785.939	32,665.063	53,794.264	$385,294.89
5A	Further Processor-Cheese	4,835,157	158,361.206	164,519.867	272,381.883	$1,859,630.52
5B	Further Processor-Non Chees	3,670,554	579,360.325	107,132.876	178,973.229	$3,275,892.17
5C	Confectionery products	8,454	3,381.000	172.012	286.786	$10,100.95
5D	Planned Structural Surplus	9,847,298	37,429.043	344,845.128	572,957.086	$1,480,693.02
5E	Plan C & Surplus Removal	7,238,650	7,453.247	248,338.744	424,382.466	$995,618.22
	Optional Export Program	47,477	20,691.470	854.180	1,359.440	$50,391.20
	Component/Meter Shrink	663,869	(4,877.646)	115,595.602	45,090.147	$0.00
	Gross Production and Revenue	284,547,062	10,768,658.395	9,534,021.580	15,955,031.641	$159,479,118.45

Pool Adjustments:

- Component Adjustments	$35,055.25
- Pool Interest Income	$136,736.03
- National Pool Adjustment(P4, P6, P9)	($6,571,112.26)

TOTALS	**284,547,062**	**10,768,658.395**	**9,534,021.580**	**15,955,031.641**	**$153,079,797.47**

POOL PAYMENT DISTRIBUTION

		Distribution Weight	Average Pool Factors	Component Revenues	REVENUES
Domestic Components & Revenues					
	Butterfat	10,214,181.181	$5.34383	$54,582,860.10	
	Protein	9,050,289.471	$8.41852	$76,190,067.13	
	O/Solids	15,138,548.200	$1.25821	$19,047,515.31	$149,820,442.54
Optional Special Class Components & Revenues		Distribution Weight	Average Pool Factors	Component Revenues	
	Butterfat	125,864.690	$2.63765	$331,986.42	
	Protein	110,446.350	$4.16546	$460,059.62	
	O/Solids	187,168.750	$0.61931	$115,915.85	$907,961.89
World Market Components & Revenues		Distribution Weight	Average Pool Factors	Component Revenues	
	Butterfat	408,702.110	$1.55769	$636,629.95	
	Protein	355,567.960	$1.99170	$708,185.08	
	O/Solids	599,134.680	$1.57292	$942,389.12	$2,287,204.15
Food Bank	Butterfat	1,981.110	$4.55864	$9,031.16	
	Protein	1,755.920	$7.15864	$12,570.00	
	O/Solids	2,968.140	$1.05900	$3,143.27	$24,744.43
Skim-Off Export Program	Butterfat	17,929.300	$2.20000	$39,444.46	$39,444.46
			Total Revenues		**$153,079,797.47**

STATISTICS	TOTAL LITRES	BUTTERFAT KGS	PROTEIN KGS	O/SOLIDS KGS
COMPONENTS 1997/1998	284,547,062	10,768,658.391	9,518,059.701	15,927,819.770
COMPONENT AVERAGES		3.78449	3.34499	5.59760
Previous Year 96/97 Results	278,309,775	10,618,100.876	9,301,128.216	15,638,981.819
Previous Year Component Averages		3.81521	3.34201	5.61927

1997/98 Dairy Year

Producers daily quota was decreased by 2% August 1, 1997 primarily due to increased skim off in the province, and increased import olbligations under the W.T.O. A 5% Cover-Off was made avaiiable to producers for August through November, 1997 which made an additional 172,743.44 kilograms of quota available to producers, 46.7% of which was actually used.

The 2% Optional Export Sleeve was introduced in February 1998, which gave producers the flexibilty to reduce the amount of monthly production that they contributed to Special Class milk. By holding production to 98% of quota, a producer reduces the amount of production that he/she has shipped into the lower valued special classes and as such receives a better blend price.

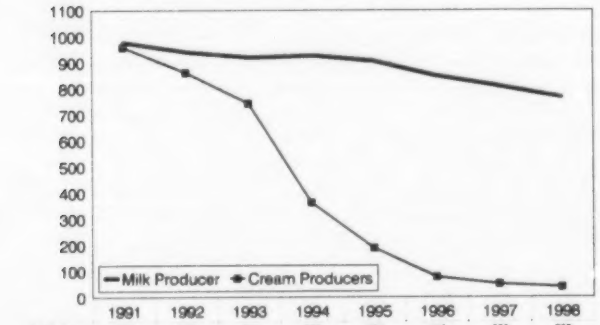
Daily Quota Issued as of July 31,1998:
28,430.84 kg. B.F.

Production 1997/98 Dairy Year:
10,748,747.45 kg. B.F.

Quota Utilization 1997/98:
103.88%

Number of Dairy Farms

Milk and Cream Producers



Yearly Average

1997/98 Dairy Year

Producers daily quota was increased by 1% on August 1, 1998 in response to increased industrial milk sales particularly in cheese. The cover off was again set at 5% for the period August 1 to November 30, 1998.

Daily Quota Issued for August, 1998
28,724.52 kg. B.F.

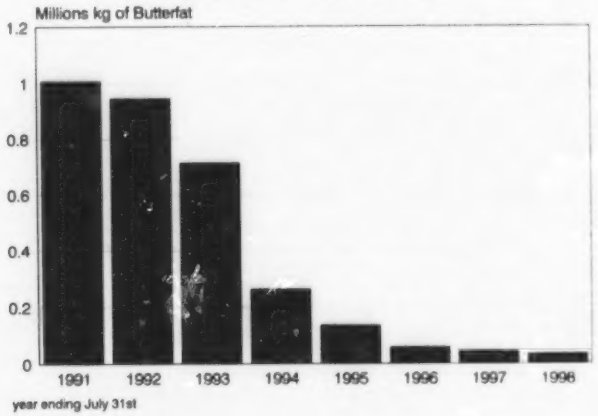
Cream Quota Summary

Farm separated cream production totalled 32,512 kilograms of butterfat for the dairy year ending July 31, 1998.

Cream M.S.Q. was increased by 2% for the 1998/99 dairy year. As of August 1,1998 Manitoba has 11 registered cream producers holding 15,207 kg. of cream M.S.Q.

Manitoba Farm Separated Cream Production

Quota Years 1991 to 1998



year ending July 31st

Quota Exchange Summary

Quota Exchange Clearing Prices

	1997/98 Quota Price By Month	1996/97 Quota Price Comparison
Aug	$9,411.10	$9,310.00
Sep	$9,412.00	$8,492.00
Oct	$10,000.10	$7,500.00
Nov	$10,320.25	$8,000.00
Dec	$10,460.00	$8,900.00
Jan	$10,990.00	$9,600.00
Feb	$11,521.45	$9,500.00
Mar	$11,950.00	$9,690.00
Apr	$11,890.00	$9,353.00
May	$11,895.00	$9,050.00
Jun	$11,800.00	$9,501.85
Jul	$11,900.00	$10,000.00

	Milk	Cream	Total
Total Quota Offered for Sale (kg)	4,334.70	77.59	4,412.29
Total Quota Sold on the Exchange (kg)	1,466.23	65.62	1,531.85

Summary of Quota Movement by District

(In kilograms of Daily Quota)

District #	Quota Purchased (kg)*	Quota Sold (kg)	Net Change
1	46.25	204.86	-158.61
2	34.20	128.68	-94.48
3	236.11	162.68	+73.43
4	135.82	61.92	+73.90
5	153.77	301.73	-147.96
6	150.15	101.67	+48.48
7	230.03	164.21	+65.82
8	439.83	153.05	+286.78
9	192.18	333.15	-140.97

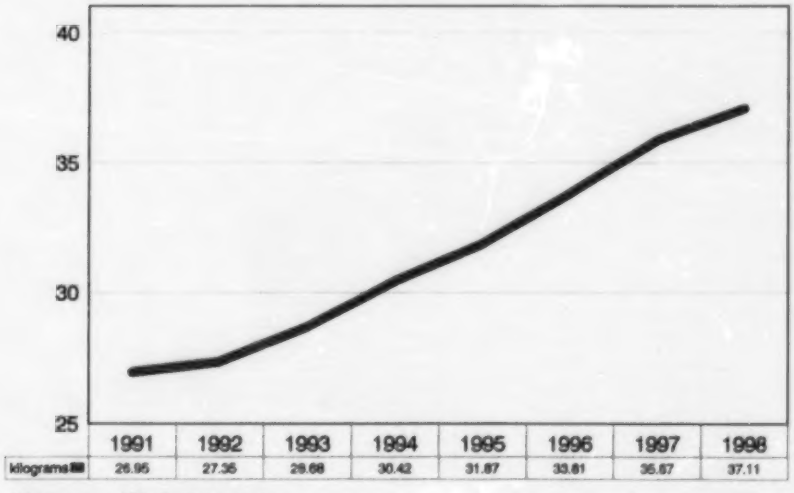
* Quota Sold is 100% of the Producers Quota (Prior to 5% assessment)

Summary of Quota Transfers

Type of Transfer	# of Applications Approved	Kgs of Quota Transferred
Complete Dairy Farm Sale	16	562.17
Complete Family Transfers	13	461.90

Daily Quota

Average of Daily Quota per farm

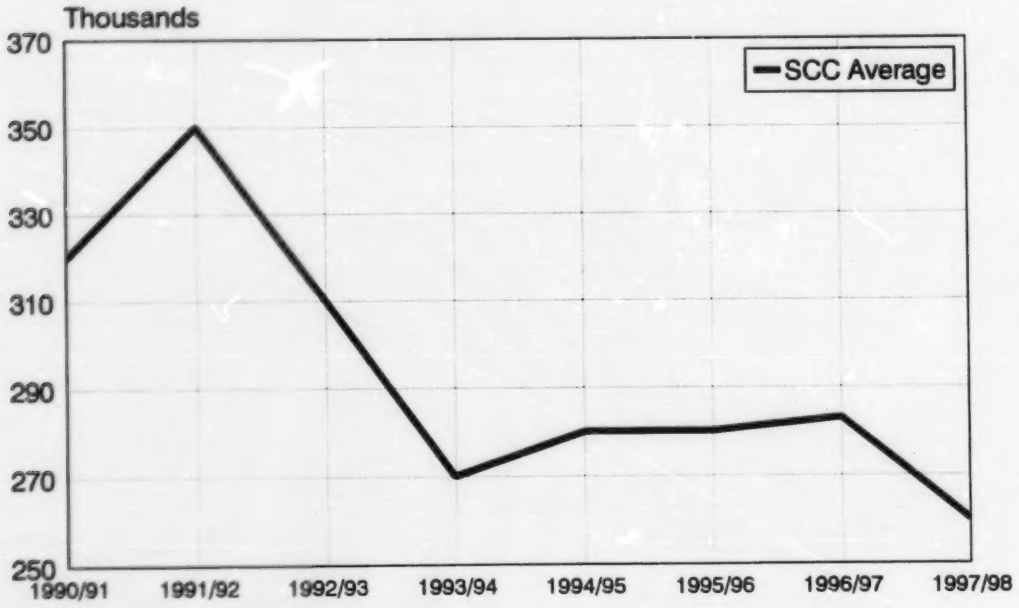


kilograms of Butterfat per day

Milk Quality Premium Program

The Milk Quality Premium Program paid out $131,356.56 to eligible producers from August 97 to January 98. The Quality Premium Program which paid producers a premium of either $0.25/hl or $0.10/hl for monthly production that met or exceeded the criteria for superior quality was suspended after January 98 when the fund ran out of money. The Board has been considering some other ways of paying producers a premium for shipping milk of superior quality, but no decision has been finalized on a new program.

Manitoba Average Annual Somatic Cell Count

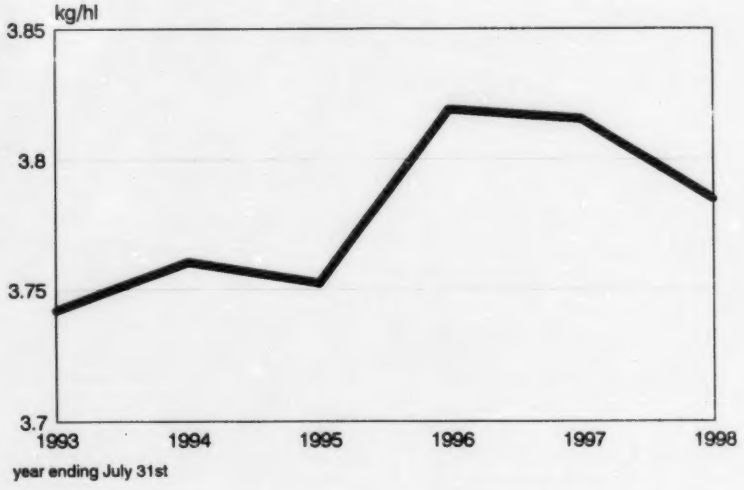


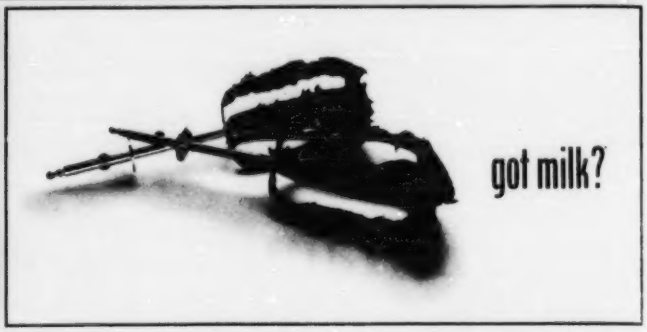
Quality Group

The quality group continued to work closely with producers experiencing milk quality problems throughout the 1997/98 dairy year. As a result of the cooperative effort of staff from Manitoba Milk Producers, Manitoba Agriculture, Veterinarians, and Equipment Dealers, producers experiencing quality problems were able to get the assistance and guidance they required to bring about significant improvements in their herds. No producers were suspended in 1997/98 for chronic quality problems.

Yearly Average Butterfat Test

Manitoba





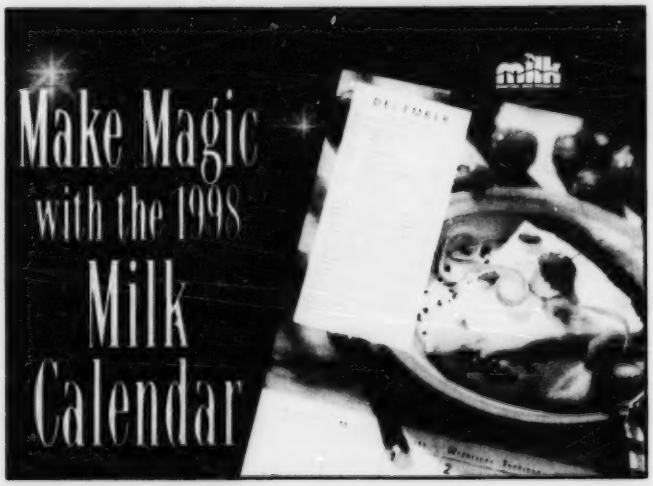
Fluid Milk

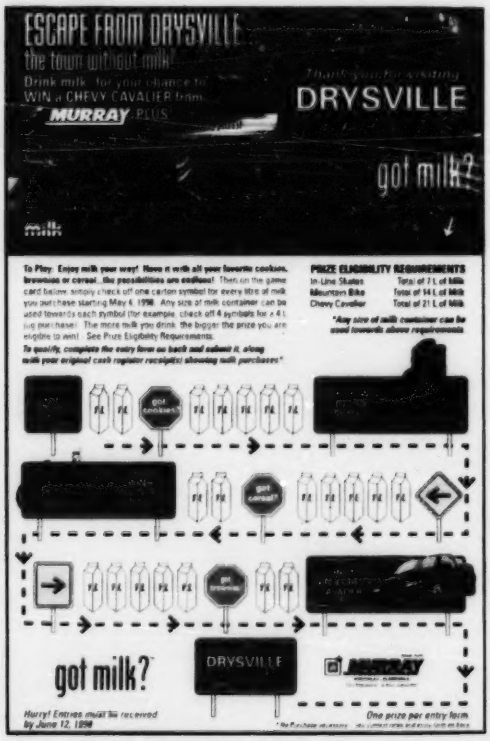
The outstanding awareness, likability and message communication that resulted from the *got milk?* campaign warranted Manitoba Milk Producers to continue the campaign into its fourth year. Mediums consisted of television, outdoor, radio and in-store advertising.

The television spots depicted a town dry of milk, called Drysville. Two thirty-second spots made light of situations where residents of Drysville were deprived of milk. Working in synergy with television, billboards of co-dependent food products prompted consumers to stop for milk on their way home.

For the second year, Manitoba Milk Producers partnered with the Winnipeg Free Press to promote the 1998 Milk Calendar. The promotion evolved from a 2 week to an 8 week promotion that resulted in an increase in calendar distribution and more importantly an increase in milk sales. Consumers could win a trip for 4 to Disney World by entering the Milk Calendar Trivia Contest which asked questions relating to the Milk Calendar. The Milk Calendar and Trivia Contest were also advertised on shelf-talkers in grocery stores and on 4 Winnipeg radio stations. The response to the contest was overwhelming and MMP plans to repeat this successful promotion again for the 1999 Milk Calendar.

Due to a decrease in the 1997/98 promotion budget, it was necessary to reduce the number of promotions from four that ran in 1996/97 to one large promotion that ran in the spring of 1998. MMP partnered with Manitoba processors to deliver the Escape from Drysville - the Town Without Milk contest. The contest ballot contained a milk map to escape from Drysville. On the map, consumers would check off one carton symbol for every litre of milk purchased. The more milk the consumers purchased, the bigger the prize they were eligible to win. With the purchase of 7 litres of milk, consumers could win In-Line Skates; with the purchase of 14 L of milk they could win a Mountain Bike; and with the purchase of 21 L of milk they could win a 1998 Chevy





Cavalier! MMP also partnered with Murray Chevrolet Oldsmobile in the promotion. The contest was supported with four weeks of radio advertising and in-store banners, shelf-talkers and ad pads. Over 1500 participants entered the contest, which was particularly strong in relation to that of a similar contest.

Cream

The importance of the promotion of cream was reflected through a 100% increase in the budget from the previous year. The budget increase supported the expansion of the Real Cream program into foodservice, where it is believed that about 60 - 70 percent of cream is consumed. A bakery and restaurant program was developed to motivate foodservice establishments to serve only products made with Real Cream. Through partnerships with the processors, point-of-sale materials (such as danglers, shelf-talkers, cake picks, stickers, and framed certificates) were distributed to outlets that joined the program. To launch the program to the trade, MMP participated in trade shows in the fall and spring.

In addition to the trade support, outdoor and magazine advertising increased consumer awareness of Real Cream. Manitoba Milk Producers also partnered with the processors to deliver retail promotions during both the Christmas and summer seasons which included the distribution of recipes and coupons. During 1998/1999, the Real Cream program will evolve into Phase 2 which will focus on Real Cream in coffee.

SCHOOL MILK PROGRAM

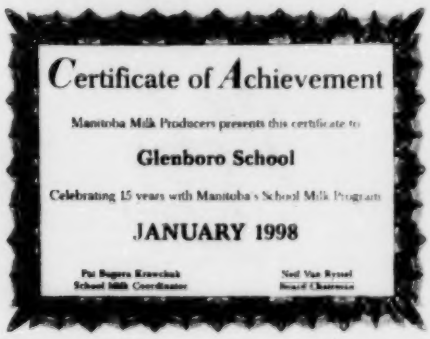
School Milk Program

The School Milk Program celebrated 15 years of existence in Manitoba schools and the results achieved thus far have been beyond expectation. It all began in the Fall of 1983 with a handful of schools interested in promoting milk as a nutritious beverage choice in their school. Then, the Program gained popularity and led to phenomenal results including 533 schools participating in either the Elementary or Jr./Sr. High School Milk Program or both from a potential of 706 eligible schools (i.e.: 75 % participation rate).

This year, the following 26 schools celebrated their 15th Anniversary with School Milk:
Glenboro, Gimli Early/Middle Years, McCreary, NewEra, Riverton, Rorketon, Winnipegosis Elementary, Boissevain, St-Joachim, LaVerendrye, Major Pratt, Melita, St-Ignatius, Westmount, Rossburn Elementary, Arthur Meighen, Carberry Collegiate, Crocus Plains Regional Sec., Green Valley, Hamiota Collegiate, Hedges Middle, Minnedosa, Niverville, Rivers Collegiate, St-James Collegiate, College Saint-Jean-Baptiste.

Each of these 26 schools received a promotional package to help them plan their 15th Anniversary celebration with their staff, students, parents and community. In recognition for their continued involvement in the School Milk Program, each school was also presented with: A certificate of achievement,special "COWgratulations" pencils for all students and T-shirts for the School Milk Coordinators who gave their personal time to make the School Milk Program a success in their school.

Since its introduction, the Milk Program has allowed hundreds of students to have access to cold, fresh and nutritious milk everyday. The Program has provided schools with the


Certificate of Achievement

Manitoba Milk Producers presents this certificate to

Glenboro School

Celebrating 15 years with Manitoba's School Milk Program

JANUARY 1998

Pat Rogers Krawchuk
School Milk Coordinator

Neil Van Rysael
Board Chairman

appropriate tools to help them promote milk consumption in a fun and educational way.

Ongoing communication with the schools (i.e. newsletter, program evaluation, school visit...) has been instrumental to the continuous improvements of the Program. This has allowed us to maintain existing interest and enthusiasm and to attract new schools to the Milk Program. Moreover, the following complementary programs have provided a great support structure to the Milk Program: Spirit Week, School Newsletter, Mascot, 15th Anniversary Celebration, Milk Coordinator Recognition Award, Milk Driver of the Year Award.

Furthermore, due to the nature of the Program, which highlights the importance for students to have the opportunity to choose a healthy beverage like milk at school every day, the School Milk Program has attained a high degree of credibility within the Manitoba School System. For that reason, we plan to continue working closely with schools to ensure that the School Milk Program meets their needs and continues to make a positive contribution to the school as well as the student population.

Over the last 15 years, the schools' growing interest in the Milk Program has allowed us to further increase awareness and consequently the consumption of milk in Manitoba schools.

NUTRITION EDUCATION

Milk's Nutrition Education programs continued to find new audiences and have worked more closely with other provinces and DFC this past year.

Demand for programs with childcare workers, which feature a clear milk message, continues. New audiences with Aboriginal Head Start in Manitoba mean new opportunities for milk consumption in the province.

Requests for our Continuing Care Provider inservice has increased this year. This program features milk as part of healthy shopping, food preparation and eating for individuals and families of all ages and need.

Work on the MB Education Curriculum committee is complete, we will ensure that our school workshops evolve to meet the needs of Manitoba schools.

Milk's commitment to the Osteoporosis Society Chapter continues. Our resources are used almost exclusively to deliver the calcium message. Pat organizes volunteer training in the province, ensuring that the first message about calcium is always a food message ...milk!

Work with Manitoba Agriculture is ongoing. The exposure of milk recipes in "Great Tastes of Manitoba" (a television cooking show), has increased dramatically as the show moved to CKY.

We partnered with the Heart and Stroke Foundation of Manitoba again this year to develop a resource for parents of preschoolers: *Food, Fingers & Fun.* It will be used by both organizations across the province.

A nutrition forum organized in partnership with Dietitians of Canada was a great success again this year - over 300 health professionals attended from all over Manitoba.

Our regular involvement in key nutrition committees and programs throughout the province maintains an ongoing Milk presence in Manitoba health programs. We look forward to furthering this year's work and increased opportunities for our milk and calcium message in the 1998/1999 dairy year.

TRANSPORTATION

In the transportation sector of operations, the Board needed to focus a majority of its attention on two items. These were a revision to the method of producer transportation charges and a plant consolidation.

After several attempts in recent years to simplify and make the freight charges to producers more equitable, the Board of Directors decided on a revised means. The new method recognizes the fixed costs that each pick-up of milk from a farm incurs; and apportions the balance on a pooled rate applicable to all producers. This routine removes some of the distortions that were generated in the previous system, which was affected by increments in the scales used for charging producers. Changing to this method is more equitable because it charges for costs incurred, with the balance being strictly based on volume; which is very much within an individual producer's control.

The Board also spent a good deal of time discussing and dealing with issues arising from the closing of the DAIRYWORLD cheese plant in Dauphin, and the consolidation of operations into an expanded plant at Winkler. Prior to, and during, this transition many details such as moving milk supplies from the traditional Dauphin catchment area required concentrated decision-making. Determining equipment types for best utilization and least-cost milk direction to remaining plants

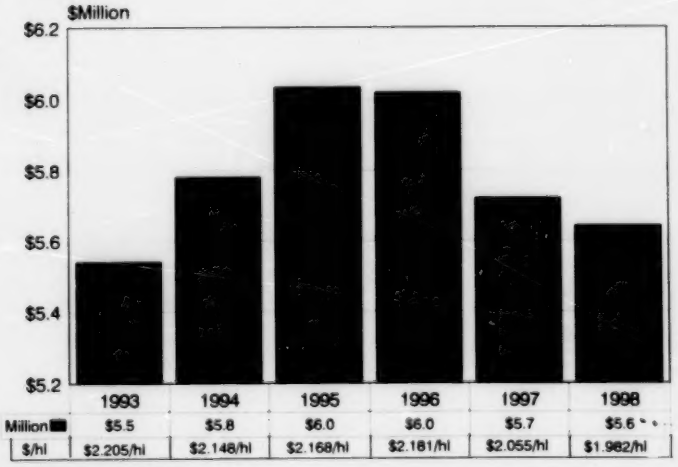
also warranted attention. Also, two cheese plants in the province were shutdown for renovations during the peak milk production period. A tremendous amount of logistical co-ordination was required to meet the challenges these temporary closures presented. Through the co-operative efforts of processors, transporters and producers, the obstacles were overcome with minimal disruptions and costs. Manitoba Milk Producers extends their appreciation to all parties for the co-operation and efforts put forth during these periods; and throughout the entire year.

The volume of milk marketed in the last year increased by 2.25 percent over the previous year. Through further refinements to the transporter rate formula, a slight reduction in the total cost of freight was achieved. Even though more milk was transported, the total costs were reduced by about $40,610 for the year; or 1.07 per cent. Although not large, the amount is significant when the increased volume and cost increases in other areas are taken into account. The Board will continue to exercise diligent cost control in the future, and will be exploring other avenues in order to attain further efficiency refinements and cost benefits.

Facts & Figures

No. of	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Haulers	26	24	20	20	19	19	18	17
Tandems	44	39	36	34	33	28	27	26
Trailers	5	6	6	7	8	11	12	12
Routes	112	104	101	105	107	100	98	100
Estimated Annual distances (km)	3810000	3795000	3732000	3731000	3823000	3737000	3682000	3604000
No. of hl hauled (km)	0.686	0.675	0.673	0.684	0.686	0.737	0.758	0.790

Total Annual Transportation Costs



Dairy Year ending July 31st

Hutchings May & Co.
Chartered Accountants

DFK INTERNATIONAL
Member of DFK International and DFK Accountancy Group Inc. (Canada) with affiliated offices worldwide.

Partners:
John E. Hutchings, M.A. (Oxon), C.A.
Richard F. Hutchings, B.A., C.A.
Larry H. Frostiak, B.Sc., B.Ed., C.A.
Kenneth T. Leslie, B.Comm (Hons), C.A.
Lawrence K. Eiler, B.A., C.A.
Myles L. Pouteau, B.Comm (Hons), C.A.
Associate:
Shirley Hurst, B.Comm(Hons), C.A.

To the Registered Producers of
Manitoba Milk Producers

We have audited the consolidated statement of financial position of Manitoba Milk Producers as at July 31, 1998, and statements of operations of milk pool fund, general fund, transportation fund, quota exchange, MFC Testing and Research Inc. and consolidated statement of changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly in all material respects, the financial position of the Corporation as at July 31, 1998, and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles.

Hutchings May & Co.

Winnipeg, Manitoba
September 28, 1998

Chartered Accountants

WINNIPEG 50 Stafford Street Winnipeg, Manitoba, Canada R3M 2V7 Tel. 204-284-7957 Fax 204-453-1243
Internet: http://www.HutchingsMay.com/homepage/ **E mail:** confidential@HutchingsMay.com

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JULY 31, 1998

Exhibit A

	1998	1997
CURRENT ASSETS:		
Cash	$ 3,295,382	$ 1,484,221
Accounts receivable	13,162,810	12,914,332
Prepaid expenses	96,722	81,554
Total current assets	16,554,914	14,480,107
CURRENT LIABILITIES:		
Producer cheques - unissued	11,697,222	11,711,260
Accounts payable and accrued liabilities	2,553,991	1,411,012
Total current liabilities	14,251,213	13,122,272
WORKING CAPITAL	2,303,701	1,357,835
PROPERTY, BUILDING AND EQUIPMENT:		
Cost	2,067,564	2,077,448
Less accumulated amortization	(1,234,311)	(1,146,653)
Net property, building and equipment	833,253	930,795
REGISTERED PRODUCERS' EQUITY AND CAPITAL EMPLOYED	**$ 3,136,954**	**$ 2,288,630**
Represented by the following:		
Corporation funds		
General (Ex.C)	$ 2,439,730	$ 2,498,953
Transportation (Ex.D)	-	-
Quota Exchange (Ex.E)	1,328,173	436,115
Subsidiary Company -		
MFC Testing and Research Inc. (Ex.F)	(630,949)	(646,438)
	$ 3,136,954	**$ 2,288,630**

Approved by the Members

Craig Finnie

Craig Finnie

Neil Van Ryssel

Neil Van Ryssel

STATEMENT OF MILK POOL FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1998

Exhibit B

	1998	1997
INCOME:		
Milk sold to processors	$ 159,541,130	$ 156,211,354
Investment interest	136,736	116,543
Total income	159,677,866	156,327,897
DISTRIBUTION:		
Payments to Manitoba producers	142,856,791	140,702,104
National pool equalization payments	6,571,112	4,982,974
Deductions for Corporation controlled funds:		
General (Ex.C)	4,029,866	4,230,193
Transportation (Ex.D)	5,641,438	5,718,158
Deductions determined by others:		
Manitoba Milk Recording Corporation	85,026	83,491
Keystone Agricultural Producers	52,800	68,500
Other deductions:		
Quality penalty levy (Ex.C)	180,460	258,395
Food Bank donations	63,663	89,271
MFC Testing and Research Inc. (Ex. F)	196,710	194,811
Total distribution	159,677,866	156,327,897
UNDISTRIBUTED INCOME FOR THE YEAR	-	-
APPROPRIATION TO GENERAL FUNDS	-	-
UNDISTRIBUTED INCOME AT BEGINNING AND END OF THE YEAR	$ -	$ -
VOLUME OF MILK (in thousand litres)	284,547	278,310

STATEMENT OF GENERAL FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1998

Exhibit C

	1998	1997
INCOME:		
Deductions (Ex.B)		
Milk producers	$ 4,029,866	$ 4,230,193
Quality penalties	180,460	258,395
Cream producers	98	129
Interest	148,944	123,697
	4,359,368	4,612,414
EXPENSE:		
Amortization	50,796	52,262
Antibiotic milk losses	58,889	75,816
Communication	82,109	87,168
Cost incurred from plant labour dispute	78,719	-
Interest allocated to milk pool	136,736	116,543
Meetings and seminars	69,728	79,462
Members (Note 4)	318,779	291,534
Memberships and grants	96,299	90,551
Milk sample costs	43,218	62,082
Occupancy	65,150	69,109
Office supplies	67,711	71,370
Professional fees	119,547	117,271
Quality premiums	131,357	150,381
Salaries and benefits	775,462	778,382
Staff travel	69,888	71,797
Other	42,120	39,790
Media advertising		
Dairy Farmers of Canada	1,395,740	1,203,504
Provincial	791,243	1,179,015
Promotional materials	119,201	124,255
Special event sponsorship	35,419	64,165
Expense recovery	(28,856)	(35,989)
	4,519,255	4,688,468
NET INCOME (LOSS) FOR THE YEAR	(159,887)	(76,054)
RETAINED INCOME AT BEGINNING OF THE YEAR	2,498,953	2,268,983
APPROPRIATION FROM QUOTA EXCHANGE	100,664	306,024
RETAINED INCOME AT END OF THE YEAR	**$ 2,439,730**	**$ 2,498,953**

STATEMENT OF TRANSPORTATION FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1998

Exhibit D

		1998		1997
INCOME:				
Deductions (Ex.B)	$	5,641,438	$	5,718,158
Diversion revenue		36,110		-
		5,677,548		5,718,158
EXPENSE:				
Transporter payments:				
Assigned plant deliveries		5,494,143		5,565,749
Diversions		83,405		54,701
Salaries and benefits		100,000		97,708
		5,677,548		5,718,158
NET INCOME FOR THE YEAR		-		-
RETAINED INCOME AT BEGINNING OF THE YEAR		-		-
RETAINED INCOME AT END OF THE YEAR	$	-	$	-

STATEMENT OF QUOTA EXCHANGE OPERATIONS
FOR THE YEAR ENDED JULY 31, 1998

Exhibit E

		1998		1997
QUOTA EXCHANGED:				
Quota transfers to successful bidders		17,907,035		7,286,310
Quota transfers from successful offerors		16,920,115		7,144,065
Quota exchange result excess(deficiency)		986,920		142,245
INCOME:				
Interest earned		5,802		2,614
		992,722		144,859
BALANCE AT BEGINNING OF THE YEAR		436,115		597,280
APPROPRIATION TO GENERAL FUND		(100,664)		(306,024)
BALANCE AT END OF THE YEAR	$	1,328,173	$	436,115

The Corporation administers a monthly quota exchange to facilitate the orderly transfer of quota between producers.

STATEMENT OF MFC TESTING & RESEARCH INC. OPERATIONS
FOR THE YEAR ENDED JULY 31, 1998

Exhibit F

	1998	1997
INCOME:		
Component testing fees -		
Deductions (Ex.B)	$ 196,710	$ 194,811
Milk recording program	153,673	151,432
Processor - proportionate sample fees	65,442	42,801
Other income	17,928	8,273
	433,753	397,317
EXPENSE:		
Amortization	46,533	67,137
Board members' per diems and travel (Note 4)	-	3,234
Courier service	22,613	22,793
Data processing	2,016	1,760
Insurance	9,434	11,047
Interest (Note 1C)	11,302	9,390
Laboratory accreditation	2,262	3,761
Laboratory supplies	33,475	31,189
Maintenance	18,317	12,004
Occupancy (Note 1C)	17,554	24,924
Office supplies	1,191	1,562
Other	3,105	3,023
Professional fees	27,231	15,835
Salaries and benefits	220,599	236,913
Staff travel	197	78
Staff training	2,435	476
	418,264	445,126
INCOME (LOSS) FOR THE YEAR	15,489	(47,809)
(DEFICIT) AT BEGINNING OF THE YEAR	(646,438)	(598,629)
(DEFICIT) AT END OF THE YEAR	**$ (630,949)**	**$ (646,438)**

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION
FOR THE YEAR ENDED JULY 31, 1998

Exhibit G

	1998	1997
OPERATING ACTIVITIES:		
Net income(loss) of funds -		
General (Ex.C)	$ (159,887)	$ (76,054)
Transportation (Ex.D)	-	-
Milk Pool (Ex.B)	-	-
	(159,887)	(76,054)
Quota Exchange (Ex.E)	992,722	144,859
Income (Loss) of subsidiary -		
MFC Testing and Research Inc.(Ex.F)	15,489	(47,809)
	848,324	20,996
Non-cash items included in above -		
Amortization	97,329	119,399
Loss on disposal of equipment	2,357	-
	948,010	140,395
INVESTING ACTIVITIES:		
Proceeds on disposal of equipment	3,968	-
Purchase of property, building and equipment	(6,112)	(34,040)
	(2,144)	(34,040)
FINANCING ACTIVITIES:	-	-
INCREASE (DECREASE) IN WORKING CAPITAL POSITION FOR THE YEAR	945,866	106,355
CASH PROVIDED BY (USED IN) OPERATION OF NON-CASH WORKING CAPITAL COMPONENTS	865,295	(2,414,548)
INCREASE (DECREASE) IN CASH POSITION FOR THE YEAR	1,811,161	(2,308,193)
CASH POSITION AT BEGINNING OF THE YEAR	1,484,221	3,792,414
CASH POSITION AT END OF THE YEAR	**$ 3,295,382**	**$ 1,484,221**

( ) denotes use of cash

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1998

1. SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Manitoba Milk Producers is a body corporate established under The Natural Products Marketing Act of the Province of Manitoba in 1974. The Corporation is responsible for the control and regulation of the marketing of milk in the province.

(a) MILK POOL FUND

Selling prices - The value of milk sold to processors is determined by its final product use. The Corporation sets the prices charged to processors except for Class I milk which is set by the Manitoba Milk Prices Review Commission. For purposes of accountability to producers the Corporation credits income from processor sales to a milk pool fund.

Costs of sales - Commencing in 1997 the Corporation participates in interprovincial arrangements with the Western Milk Pool, the All Milk Pool in the east and the Canadian Dairy Commission in order to share milk sale revenues equally among Canadian milk producers. The resulting share of interprovincial revenues is paid to the individual Manitoba producers based on the quality and quantity of milk shipped.

The operation of the milk pool is accounted for in Exhibit B.

(b) PRODUCER DEDUCTION FUNDS

Operating Expenses - The Corporation is authorized through provincial statute to deduct fees from producer milk pool payments to cover operating expenses. Such deductions are accounted for separately in Exhibits C, D, and F.

(c) BASIS OF CONSOLIDATION

The Corporation and its wholly owned subsidiary MFC Testing and Research Inc. are considered to be one economic entity for accounting purposes. Accordingly, these financial statements are presented on a consolidated basis. However certain transactions between the Corporation general fund and the subsidiary cannot be eliminated in the respective statements of operations because the Corporation, by government regulation, follows the fund basis of accounting. The resulting related party transactions not eliminated on consolidation are as follows:

	1998	1997
Interest	$11,302	$ 9,390
Occupancy	17,554	24,924
	$28,856	$34,314

(d) **PROPERTY, BUILDING, EQUIPMENT AND RELATED AMORTIZATION**

Property, building and equipment are stated at cost. Amortization is provided for on the straight-line basis over an estimated life of five years for office equipment, seven years for laboratory equipment and thirty years for the building.

(e) **INCOME TAXES**

The Corporation's subsidiary company is a taxable Canadian corporation accounting for income taxes under the tax allocation method. The subsidiary has incurred losses which are not certain of utilization. Accordingly the tax reductions that may result from the application of these losses have not been recognized in the accounts as explained in Note 6.

2. **COMMITMENTS:**

Manitoba entered into an agreement with five other provinces to establish a national milk pooling arrangement for all milk revenues commencing August 1, 1996. As a condition of becoming a partner in the arrangement the Corporation agreed to pay to the other partners a net exchange consideration of $1.8 million. This agreement was altered through negotiations with the other parties whereby the cost to the Corporation was reduced to $ 122,616 from $ 2,587,500. During 1998 the Corporation paid $ 40,836 to other provinces. These payments are included in the 1998 national pool equalization payments in Exhibit B. At July 31, 1998 the Corporation owed $ 44,314 to other provinces payable in the period August 1, 1998 to 1999.

3. **PENSION PLAN:**

Employees of the Corporation participate in the Manitoba Civil Service Superannuation Board pension plan which is a defined benefit plan.
Employees of MFC Testing and Research Inc. participate in a defined contribution plan administered by a Canadian insurance company.
The Corporation participates in both plans on a defined contribution basis whereby it contributes to the plan a fixed amount equal to the amount contributed by the employees.

4. ELECTED MEMBERS PER DIEM AND TRAVEL EXPENSES:

Members are paid a per diem of $175 ($175 - 1997) and the Chairman $217 ($217 - 1997) for time spent at meetings or on business matters of the Corporation. In the following information the Chairman's per diem includes an annual stipend of $20,000 and the Vice-Chairman's per diem an annual stipend of $10,000.

District		Per Diem	Expenses
#1	Russell McKague	$ 13,562	$ 7,315
#2	Hugh Jameson	14,334	7,456
#3	Craig Finnie	13,527	7,720
#4	Maurice Delichte	13,985	6,667
#5	William Swan (Vice Chairman)	24,654	14,720
#6	Neil Van Ryssel (Chairman)	71,472	30,735
#7	K. Leppky	22,482	18,318
#8	Ray Pelletier	16,866	11,360
#9	David Wiens	15,761	7,845
	1998	$ 206,643	$112,136
	1997	$ 189,674	$105,094

5. PROPERTY, BUILDING AND EQUIPMENT:

	Cost	Accumulated amortization	Amortization rate
Land	$ 104,109	$ -	-
Building	833,204	253,917	30 years
Equipment			
- laboratory	597,758	497,224	7 years
- other	532,493	483,170	5 years
	$2,067,564	$1,234,311	

6. INCOME TAXES:

Manitoba Milk Producers is an agricultural organization whose income is not payable to or otherwise available for the personal benefit of any registered producer. Accordingly, the net income of the Corporation is exempt from income taxes. MFC Testing and Research Inc. is a taxable Canadian corporation. The potential income tax benefits associated with its accumulated operating losses of $630,949 are not recognized in the accounts because of the uncertainty of utilization. The losses are available to reduce taxable income of future years but their availability will expire after 1999.

7. 1997 COMPARATIVE FIGURES:

Certain of the 1997 comparative figures have been reclassified to conform with the 1998 classification of financial information.

STANDING ADVISORY COMMITTEES

Executive:
N. Van Ryssel, Wm. Swan, K.P. Leppky

ENVIRONMENT

K. P. Leppky

FINANCE

Wm. Swan
C. Finnie
H.M. Jameson
N. Van Ryssel

PRODUCT PROMOTION

H.M. Jameson
K.P. Leppky
R.H. McKague
D. Wiens

TRANSPORTATION

M.O. Delichte
R. Pelletier
Wm. Swan

MILK QUALITY IMPROVEMENT

C. Finnie
R. Pelletier
Wm. Swan
D. Wiens

**Committee Chairman to be selected at the first 1998 Committee Meeting.

AFFILIATED ORGANIZATIONS

CANADIAN MILK SUPPLY MANAGEMENT

N. Van Ryssel
K.P. Leppky
Wm. Swan

DAIRY FARMERS OF CANADA

N. Van Ryssel

DFC Promotion	Representatives
D. Wiens	R. Pelletier
	Wm. Swan

AGRICULTURE IN THE CLASSROOM

R. Pelletier

MANITOBA FARM ANIMAL COUNCIL

M. O. Delichte

KEYSTONE AGRICULTURAL PRODUCERS

K. P. Leppky

MANITOBA FORAGE COUNCIL

M. O. Delichte

Picture on Cover

Hueging Dairies winner of the 1997 Dairy Farm Excellence Award. Herman and Audrey Hueging, Woodlands, Manitoba.